



In tune with our technology,
in tune with our future

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King Fahd Bin Abdulaziz Al-Saud
The Custodian of the
Two Holy Mosques



His Royal Highness
Prince Abdullah Bin Abdulaziz Al-Saud
Crown Prince, First Deputy Premier
and Head of the National Guard



His Royal Highness
Prince Sultan Bin Abdulaziz Al-Saud
Second Deputy Premier, Minister of Defence
and Aviation and Inspector General

Saudi Arabia's oldest and largest Bank;

A network of 245 branches and offices Kingdom-wide;

46 branches dedicated to Islamic banking;

330 Al-Ahli Express ATMs in service with an overall market share of 24%;

Joint global placement agent for the first pan-Arab public share issue;

NCB develops the electronic branch - a new concept in retail banking;

NCB installs automated foreign exchange terminals at the Kingdom's principal airports;

More than 29,000 Al Ajyal student accounts are opened;

26% market share of Point of Sale terminals;

NCB's unique Treasury Direct allows customers to initiate transactions from their own PCs, supported by the Middle East's largest and most modern dealing room;

NCB enjoys more than 600 correspondent banking relationships, spread over 70 countries worldwide;

NCB's Global Trading Equity Fund is the world's largest Sharia-compliant fund;

NCB's share of open ended funds stands at 64%, with 27 mutual funds and more than 30,000 client accounts in operation;

ISO certification for data processing technology.

Financial highlights

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Operating income SRm

5,077

5,320

5,675

95

96

97

Net income SRm

700

915

1,043

95

96

97

Total assets SRm

76,660

80,052

86,438

95

96

97

firm foundations provide
the impetus to move forward.

- NCB is the leading bank in Saudi Arabia;
- NCB's purpose is to enhance the value of the firm and to serve society;
- NCB is the first choice for customers and for talented employees;
- NCB is primarily a consumer bank providing deposit, investment and innovative, tailored asset products to retail, affluent and high net worth customers;
- NCB engages selectively in corporate business with a full range of banking services for the commercial segment and corporate finance services for large corporate clients. NCB is building a diversified portfolio with returns commensurate with the risks;
- NCB's core values are customer service, reward for performance and teamwork.



1997 marks a major milestone in the history of The National Commercial Bank. I refer, of course, to the Bank's conversion from a partnership into a joint stock company.

This represents a significant step in the Bank's development and will ensure that the rate of growth can be sustained. In June, the Board of Directors met for the first time. At that meeting, I was pleased to welcome a number of members from outside the Bank who will bring a new and invaluable perspective to our deliberations.

Last year, I talked of our relentless pursuit of the goals set out in our strategic plan. I am proud to report that the momentum has been maintained throughout 1997. In no small measure, this has been made possible by the commissioning of significantly enhanced computer systems, which positively affect the way we do business. Indeed, our whole approach to banking and financial services is changing, thanks to the technological resources at our disposal. The introduction of the electronic branch is one such example. Similarly, the switch from branch to divisional reporting signals a change in the way we interface with customers.

1997 has also been a year in which we have focused on the development of our human resources. In three years, Saudisation has risen from 48% to 64%, as we continue to attract recruits of the highest calibre.

In an economic climate of rising consumer confidence, an expanding private sector and oil prices remaining at a satisfactory level, NCB's revenues for the year have exceeded SR 1.0 billion for the first time. And as befits one of the dominant banks in the region, NCB acted as joint global placement agent and lead underwriter in the Kingdom for the first pan-Arab public share issue and the first offering of Global Depository Receipts on behalf of a Gulf based institution - the Arab Insurance Group. This amply demonstrates the expertise and resources we now have in place.

The Ministry of Finance and National Economy and the Saudi Arabian Monetary Agency continue to provide support and encouragement to the nation's banking community and we welcome the healthy financial climate under which personal and corporate profit can flourish. NCB remains dedicated to maintaining the highest standards in all its undertakings and I feel confident that, under the guidance of the Custodian of the Two Holy Mosques King Fahd Bin Abdulaziz Al-Saud, HRH Prince Abdullah Bin Abdulaziz Al-Saud, First Deputy Premier and Head of the National Guard, and HRH Prince Sultan Bin Abdulaziz Al-Saud, Second Deputy Premier and Minister of Defence and Aviation and Inspector General, the appropriate levels of support and guidance will always be forthcoming.

On behalf of The National Commercial Bank and its staff, I would like to take this opportunity to thank our customers and shareholders for their continued support and encouragement and look forward to forging even closer links to the benefit of all.

To our staff, I offer sincere thanks for their valuable contribution to an excellent performance this year and for their willingness to embrace, whole-heartedly, the momentous changes that have taken place within the Bank. My colleagues in management have been adamant in their commitment to realising the demanding objectives before them.

As a result of our achievements and past performance, I feel confident that we will continue to deliver the service and products that our customers and banking partners have, quite rightly, come to expect from the region's largest and most forward looking bank.

Khalid Salim Bin Mahfouz
Chairman

A handwritten signature in black ink, appearing to read "Khalid Salim Bin Mahfouz".

The Board of Directors of The National Commercial Bank is pleased to present its report on the Bank's performance for the year ended 31 December 1997.

The National Commercial Bank's (NCB) financial statements for 1997 are distinguished by the fact that NCB now holds a different legal status in the financial community. Following the issue of Royal Decree Number M/19, the Bank converted into a joint stock company, thus bearing the same legal structure as other banks in the Kingdom of Saudi Arabia. This new company replaced the previous general partnership with effect from 1 July 1997.

The Bank has continued to operate along the same lines as previously, with its large network of branches and world wide correspondents providing a platform from which NCB can effectively respond to changing Saudi and global markets. Furthermore, NCB has continued to meet its customers' needs by providing high quality services and products which are designed to maximise value added returns to the customer. This has been possible due to the highly professional approach of its well trained and well qualified staff, whose loyalty and motivation embrace the aspirations of the Bank and the challenges it faces in the future.

The management are keen that the Bank should maintain its pioneering approach and that staff within each division should work closely together to fulfil our commitments to our valued customers - individuals, investors and companies alike - by promoting teamwork within the framework of rules governing the banking industry. These efforts have had a very positive impact on the year's financial results as described below.

Net Income

The net income for 1997 amounted to SR 1,043.3 million (1996: SR 915 million), an increase of SR 128.3 million (14%) over last year. This significant increase has been achieved by the efficient use of resources, by applying effective marketing strategies and by diversifying banking services, financing vehicles and investment portfolios to customers.

The Bank has, as a matter of policy, concentrated on increasing revenues from fee-generating products which, in turn, has led to an increase in banking service fees and income of SR 112.1 million (33.1%). This year's results were affected by a provision of SR 450.5 million (1996: SR 450.6 million) for potential loan losses and as a precaution against market fluctuations which are endemic in today's global financial markets.

Financial Position

The Bank has continued to stabilise the structure of its assets and concentrate on high returns whilst managing the risks associated with this approach. Total assets for 1997 amounted to SR 86.4 billion (1996: SR 80 billion), an increase of SR 6.4 billion (8%). Lending activities for the year amounted to SR 46.3 billion.

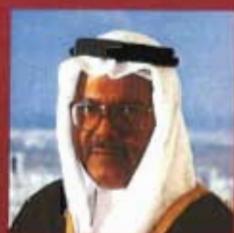
Customer deposits at the year end stood at SR 61.9 billion (1996: SR 58 billion), an increase of SR 3.9 billion (6.8%). Successful implementation of the Bank's objectives have led to an increase in deposits and the maintenance of a wide, high quality deposit base.



Khalid Salim Bin Mahfouz
Chairman and General Manager



Abdulrahman Khalid Bin Mahfouz
Deputy General Manager
and Chairman of the
Management Committee



Abdullah Salim Bahamdan
Vice Chairman



Saleh Hussein Kaki
Deputy General Manager for
Banking Operations



Sultan Khalid Bin Mahfouz



Mar'e Abdullah Bugshan



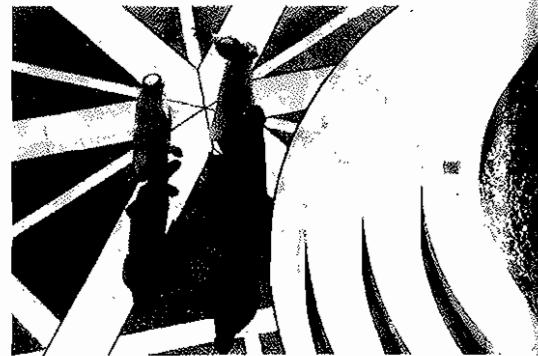
Dr. Naser Ibrahim Al Qaud



Abdulrahman Abdulaziz Al Ohaly



Mutlaq Al Mutlaq



Return on Equity

Average return on equity amounted to 13.5% for 1997 (1996: 12.3%).

Capital Adequacy (Risk)

The Bank's Risk/Asset Ratio amounted to 20.3% (1996: 21.2%).

Saudisation

Following the Kingdom's policy to Saudise jobs and give young Saudis the opportunity to assume responsibility for working in technical and high profile jobs, the Bank allocates an ever-increasing amount, each year, to support development programmes which have driven the level of Saudisation up from 59.5% in 1996 to 64.4% in 1997.

Training and Development

The Bank is continuing with its programme to develop and re-engineer its procedures and methods of work. Accordingly, a number of new computer software packages have been introduced and many operational processes have been automated. This has raised the quality and standards of service delivered to customers.

Investment in human resources has remained a priority, particularly for Saudi nationals. A wide range of training programmes, both within the Kingdom and overseas have led to upgraded technical, managerial and administrative skills, resulting in improved service and staff productivity. This has been clearly identified by the Bank's management through surveys and marketing studies.

Board of Directors

The shareholders have appointed the Bank's first Board of Directors, for a five year period, comprising nine members as follows:

Khalid Salim Bin Mahfouz, Chairman of the Board and General Manager
 Abdulrahman Khalid Bin Mahfouz, Member
 Abdullah Salim Bahamdan, Member
 Saleh Hussein Kaki, Member
 Dr Naser Ibrahim Al Qaud, Member
 Mai'e Abdullah Bughshan, Member
 Abdulrahman Abdulaziz Al Ohaly, Member
 Sultan Khalid Bin Mahfouz, Member
 Mutlaq Abdullah Al Mutlaq, Member

Directors' Remuneration

No remuneration or benefits were paid to directors, except salaries and other staff benefits paid to certain directors in their capacities as deputy general managers and as employees of the Bank.

Distribution of Profits

The Board of Directors has recommended the following distribution of profits:

	SR
Net Income	1,043,290,687
25% transfer to Statutory Reserve	260,822,672
	<u>782,468,015</u>

Distributed as follows:

Profits distributed to the partners in the general partnership before its conversion to a joint stock company	442,696,461
Proposed dividend to the shareholders	300,000,000
Zakat	14,710,479
Retained Earnings	25,061,075
	<u>782,468,015</u>

continued

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Auditors

The first general meeting of the Bank's shareholders, held on 11/2/1418H (corresponding to 16/6/1997), appointed Messrs Al Sayed Al Ayouti & Co. and Messrs Whinney Murray Co. jointly as auditors of the Bank for two years, commencing from the date of conversion to a joint stock company (1/7/1997), and determined their fees in accordance with Article 37 of the Bank's Articles of Association.

Conclusion

The Board of Directors takes this opportunity to express deep appreciation and gratitude to the Custodian of the Two Holy Mosques, King Fahd Bin Abdulaziz, HRH Prince Abdullah Bin Abdulaziz, Crown Prince, First Deputy Premier and Head of the National Guard, and HRH Prince Sultan Bin Abdulaziz, Second Deputy Premier, Minister of Defence & Aviation and Inspector General, for the support given to The National Commercial Bank and for the wise and prudent policy which has created a climate of security, welfare and stability enjoyed by the Kingdom and which has enabled the private sector in general, and the banking sector in particular, to achieve its goals.

We would also like to extend our thanks and appreciation to the Ministry of Finance & National Economy and the Saudi Arabian Monetary Agency (SAMA) for their support, guidance, backing and encouragement to the banking sector in general.

Likewise, we wish to thank all the Bank's customers and correspondents for their valued trust and thank the Bank's management and staff for their results-oriented efforts and performance, loyalty and dedication to customer service, and their attainment of management plans and objectives.

We invoke Allah the most high and powerful to continue to bestow the gift of security and welfare upon us.

Peace, Mercy and Blessings of Allah be upon you.

The Board of Directors



Saleh Hussain Kahl
Deputy General Manager for
Banking Operations



NCB's net profit increased by a highly commendable 14%, from SR 915 million in 1996 to a record-breaking SR 1.043 billion for 1997.

Retail Banking

NCB's retail business remains at the very heart of the Bank's operations and continues to provide a very large proportion of its income. With 245 branches Kingdomwide, the division offers a prime delivery channel for the entire range of products and services to our personal, corporate and institutional customers.

The introduction of new computer systems and the switch from branch to divisional accounting have brought about a radical reappraisal of the branch network's role and the way in which it operates. Since a large proportion of back office functions are performed centrally, branches now operate as platforms from which products and services can be offered in a much more targeted way.

During 1997, we have installed a further 68 ATMs, bringing the total in operation to 330. The strategic location of these machines has increased the volume of transactions by 28%, giving NCB an overall market share of 24%. Because of the increased functionality of our ATMs, the needs and banking habits of our customers are changing quite noticeably.

With the new technology proving its value, we have just completed the design phase for a new concept in retail banking – the electronic branch. The first of this type is due to start rolling at the end of the first quarter of 1998. The minimum configuration for these branches will be an ATM, a utility payment terminal, a deposit facility and an interactive information terminal. As an extension of this concept, we have installed automated foreign exchange terminals at King Abdul-Aziz and King Khalid International Airports.

Over the year, we have introduced a number of interactive information terminals to provide existing and potential customers

with information on how NCB meets their banking needs. Located strategically in shopping malls, these terminals have been welcomed enthusiastically by the public.

The popularity of telephone banking continues to grow – calls to NCB's 24 hour Call Centre have risen by more than 25%, compared with last year. In November 1997, we launched a Phone-a-Loan service offering pre-approval of personal loans over the phone. This new service has made a useful contribution to the division's 72% rise in consumer loans during the year.

The Al Ajyal Account, targeted at students, has been a resounding success and has attracted more than 29,000 new accounts since it was launched last year. In view of this response, we now publish a quarterly newsletter on financial topics of interest to account holders.

In mid-December the Al Asriyah Account was introduced. This account is designed to meet the needs of busy professional ladies, who require a wide range of services.

For the Bank's upscale customers, launch of the Al Wessam Prime Services has been an important event. Starting with the Jeddah Main Branch, our prime customers can now conduct their business within a dedicated private lounge, equipped with Reuters screens and the latest communications technology. The service also includes seminars on financial matters, a toll free 24 hour telephone service and a quarterly magazine.

The Bank's credit card business has seen important changes on a number of fronts. The card issuing unit has been reorganised to meet anticipated growth projections and upgrade the quality of our cardholder base. Improved security measures have been

continued

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Changing banking habits among our customers
ensure that NCB's 24 Hour Call Centre
remains active around the clock.



New technology has hastened the introduction
of NCB's Treasury Direct service,
which allows customers to initiate their own transactions.



introduced in delivering cards to our customers which, for the first time, include NCB Visa and MasterCard cardholders who are not account holders with the Bank.

With a 26% market share in terms of POS terminals, the merchant acquiring business has undergone a process of consolidation. This is designed to ensure that our 3,500 merchant relationships meet our consistent pricing criteria and the needs of our customers.

1997 has also seen the spread of our Pioneering Queue Management system to a further nine branches and increased availability of our unique Visa Travel Money service. Saudisation within retail banking staff has now reached 74.4%. Customer satisfaction remains high as a result of our many developments in the provision of retail services and we are constantly seeking further improvements to what we do.

Corporate Banking

The division is firmly committed to serving the needs of customers in all commercial business segments. We offer both traditional and tailor-made financing solutions. The Corporate Banking Group (CBG) services large corporations, whilst the Commercial Banking Business Group (CBBG) looks after the requirements of middle sized and small corporates. On the other hand, the Corporate Finance Group (CFG) handles mandates for restructuring, syndications, underwriting, placements and advisory assignments for all types of client.

Automation plays a major role in providing fast and accurate information to help us keep abreast of our customers' needs and reduce the volume of manual processes. At an operational level, the division has teams of dedicated product specialists. For example, the 'Trade Plus' team provides one-to-one support and advisory services in structuring the appropriate type of trade finance to meet the specific requirements of each individual customer.

The Arab Insurance Group's (ARIG) initial public offering of US\$ 182 million in equity has been a landmark for NCB's Corporate Finance Group. This was the first pan-Arab public share issue and the first offering of Global Depository Receipts by a Gulf based institution. NCB acted as joint global placement agents and lead underwriter for Saudi Arabia.

During 1997, our Structured Finance team arranged for the securitisation of SR 1.3 billion in government receivables on behalf of Saudi Oger, while CBG raised SR 687 million in facilities for the financing of the King Faisal Foundation Complex in Riyadh. We also took a US\$ 200 million tranche of the US\$ 4.3 billion syndicated loan to fund the new fleet of aircraft for Saudia and participated in the US\$ 500 million syndication on behalf of SCECO (East) to finance the Ghazlan power project.

Moving forward, the division plans to launch major initiatives in Cash Management Services, under which NCB will act as the strategic partner handling various back office functions on behalf of corporate customers. In view of the strong performance of our Corporate Finance Group and the expertise it has built up over the last few years, we are well positioned to lead the way in forthcoming public privatisation programmes, as well as private sector mergers and acquisitions.

Investment Services

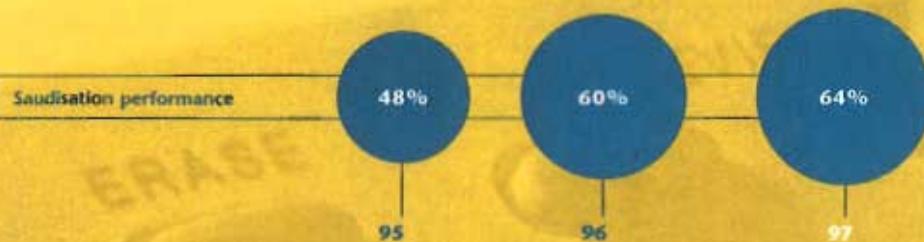
NCB Investment Services is widely acknowledged to be the leading provider of mutual funds in the Kingdom. Currently, individual and institutional investors can choose from a range of twenty seven funds, of which seventeen are open ended including four which are strictly Sharia compliant.

By the end of 1997, NCB's market share of open ended funds exceeded 60%, with assets valued at more than SR 11.8 billion. In developing our funds, we pay particular attention to the needs and aspirations of our investors. Our funds, each with a different risk profile, permit individual investors to create a diversified investment portfolio suited to their own individual requirements.

Launched in the middle of the year, the NCB Regular Investment Service offers investors a convenient way to establish and subscribe monthly to an investment program in amounts far below the normal minimum required. We offered this service, the first of its kind in Saudi Arabia, in response to customers' desire for efficient and convenient service. Judging by inquiries received by NCB's 24 hour Call Center, and a substantial increase in new investment accounts, our customers are attracted by the Regular Investment Service.

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Assets under management in NCB mutual funds have all continued to grow in line with our long term strategy to offer investment funds which are particularly suited to the Saudi market. NCB'S Global Trading Equity Fund, which invests according to strict Sharia principles, is the largest of its type in the world with more than SR 1 billion under management.

Early in the year the NCB Durrat Al Arus Fund, attracted over SR 260 million , the first local closed end real estate fund to combine a Saudi-based investment opportunity with capital protection features. In April, we launched the NCB Capital Protected Fund (CPF) 3, continuing a series of short term closed end funds which safeguard the investor from adverse risk. In December we followed with CPF 4, bringing a combined total of almost 1 billion during the year.

NCB Investment Services clients also benefit from the Bank's powerful new computer systems. Over 25 % of NCB investment customers now access investment account information through NCB's 24 hour Call Center. In addition by linking their various NCB accounts, we are making banking and investing at NCB easier and more convenient. Responding to our customers' needs for easy access to their investment funds, our four short term funds now offer daily pricing.

Communicating with our customers remains a high priority for us. Our customers can speak with an investment representative at over a hundred and sixty-five branches and offices across the Kingdom or directly through NCB's 24 hour Call Center.

We also launched Affak Al Istithmar (Investment Horizons), a regular newsletter, to keep NCB investors as well as the general public in touch with our products, performance, and investment ideas. We actively encourage events such as the Investment 97 Symposium held in Riyadh last May to further develop broader public awareness of investment principles and opportunities in the Kingdom.

Treasury

Treasury is one of the most technology-intensive businesses within the Bank. With the arrival of the new computer systems, our dealing room has retained its technological lead as we become more marketing-focused.

The application of technology most visible to customers is Treasury Direct, which was launched in December. This represents a major breakthrough because it allows our customers to initiate transactions using PCs in their own offices. The benefits of this new product range from increased accessibility and confidentiality to on-line pricing and transaction processing. Support is available in Arabic and English through our telephone helpline. This shift away from a purely transactional function allows us to maintain a much closer dialogue with our customers.

During 1997, the performance of our trading businesses in Jeddah and Bahrain has been exceptional. As one of the region's leading players in treasury and the capital markets, we continue to introduce innovative new products with sophisticated risk management and monitoring techniques.

Our pioneering queue management system has been extended to a further nine branches.



However, state-of-the-art technology requires the highest levels of professionalism and expertise from our people. For this reason, over 90% of all training takes place on the job because there is no substitute for real time exposure to market conditions. Nevertheless, supplementary courses and seminars are run on specialised topics such as selling options and risk management.

In 1993, 27% of Treasury's personnel were Saudis – that figure has now reached 51%. This year we have recruited a large number of Saudi trainees with the ultimate objective of replacing today's expatriate dealers.

1997 has been a year of substantial progress and opportunity, despite widespread volatility in the money markets. We look forward to maintaining our pre-eminent position in the future and to the time when our customers start trading from anywhere in the world by telephone and the Internet.

Islamic Banking

Over the year, demand for Islamic finance in all its forms has risen substantially. Consumer confidence within the Kingdom and cross-border trade has grown appreciably. As a consequence, Islamic banking has become increasingly attractive to many of our customers.

Our Sharia Board, drawn from leading scholars within the Kingdom, continues to provide invaluable guidance in our quest for Sharia-compliant alternatives to many conventional banking products.

In addition to the standard non-interest banking services, NCB's Islamic Banking Division offers Musharaka, Mudaraba, commercial and personal Murabaha, as well as Ijara and Istisna financing facilities. These are all subject to stringently applied risk assessment criteria. Nevertheless, we have seen substantial growth in all areas of our business – a large proportion of which has been achieved through word-of-mouth recommendation.

The number of branches wholly dedicated to Islamic banking has now reached 46 Kingdom wide and we offer four mutual funds which are strictly governed by Sharia principles. Of these, the NCB Global Trading Equity Fund is the largest of its type in the world, with more than SR 1 billion in assets under management.

Saudisation remains a major priority, and by the year end every key management position was held by a Saudi. We have also forged close links with other Islamic financial institutions to exchange ideas and further the education process in the wider financial community. Indeed, we have completed a number of consultancy assignments for other banks in the region.

Over the course of the year, we have initiated a number of Islamic financing agreements and participated in major international syndications.

Looking to the future, we will continue to develop new and innovative products and promote even greater understanding of our business. However, our primary objective will be to continue to offer our customers the best service available. In this, our enhanced systems and procedures will play a vital role.

Private Banking

NCB Private Banking was established in 1993 to serve the high net worth segment of Saudi society in the areas of investment management, financial advisory and personalised banking services. Its core objectives are to grow, protect and efficiently provide for the transfer of its distinguished clients' wealth from one generation to the next. This complex and challenging task requires a wide range of skills and competencies, at the heart of which are the creation and maintenance of long term relationships with its clients. In building these relationships, each manager seeks to identify and, indeed, anticipate clients' needs as they evolve, and to provide customised products and services that fulfil these needs.

The division's Relationship Managers are considered to be its greatest assets as well as its largest investment. Both male and female managers are highly skilled and experienced individuals who have received extensive training both within the Kingdom and overseas.

In addition to providing personalised banking and investment management services, the Bank draws upon its wide range of international contacts and expertise to meet the non-banking needs of its clients. Such services are, quite rightly, considered to be an essential ingredient in the total banking relationship.

The introduction of the Al Wessam Prime Service
offers NCB's upscale customers
a dedicated private lounge in which
to conduct their business.



**For NCB, private banking means
total banking relationships
with our customers.**



During the past few years, NCB's Private Banking Division succeeded in becoming one of the major providers of high quality private banking services in the Kingdom. In 1997, net income has grown by some 35% and the Saudisation ratio has reached 79%. This latter figure is expected to climb to 82% in the coming year.

The introduction of new technology has had a profound and positive effect on the quality of service Private Banking offers its clients. The efficient and rapid access to quality information gives NCB Private Banking Division a clear competitive edge in meeting the increasingly sophisticated needs of its growing customer base.

Systems & Operations

Towards the end of the year, we successfully completed the transfer to a UNIX operating system which provides the Bank with a powerful, state-of-the-art resource to deliver on our promise of "Accuracy, Speed and Flexibility". Simultaneously, we introduced major upgrades to the BANCS (NCB's core banking application) and Branch 2000 systems and brought on stream a customised database management system. Each of these has been a major achievement in its own right, but the true significance lay in their introduction simultaneously.

By July 1997, the Unified General Ledger became fully operational and was timed to coincide with the switch from branch to divisional accounting. At the retail level, BASE 24, the software system which handles all ATM transactions, has been substantially upgraded to provide even greater processing capacity.

In May 1997, Stage 1 of the Payments Infrastructure Project went live with the introduction of the Saudi Riyal Interbank Express (SARIE), a major initiative sponsored by the Saudi Arabian Monetary Agency. This system, involving each one of the Kingdom's commercial banks, provides the means to settle all Saudi Riyal liabilities between the banks in real time. In August, the BESS payments processor was commissioned to handle SWIFT/telex and SARIE payments traffic, linking the Bank's systems to these networks. During 1998, the third stage of the project will be implemented - the introduction of an end-to-end payments capability at branch level.

NCB's Data Warehouse, Phase One, which became fully operational during the year, is yet another example of the Bank's enhanced capacity to serve its customers. This vast repository of current and historical information allows executive and customer relationship managers to access customer information files from a wide range of sources to maximise marketing initiatives and support decision-making processes.

1997 has also witnessed initiation of a major effort for the Bank, the Year 2000 Compliance of all its systems and operations. The compliance programme is currently considered the Bank's highest priority project and its execution is being closely monitored by senior management. The programme is scheduled for completion prior to the end of 1999.

Systems and technology account for only 25% of the division's activities. The smooth and efficient running of the back office function is central to the Bank's day-to-day operations. During the course of 1997, the processing of loan applications and the handling of transfers have been centralised in Jeddah resulting in much faster turnaround times.

Managing the Cash Vault has been a major point of focus over the year to ensure the efficient deployment of physical cash where it is needed. This has meant assuming responsibility for replenishing ATMs and making sure that each branch holds a sufficient cash balance for its daily needs. Over a two to three year period, considerable cost savings can be expected. Late in 1997, we embarked upon a new project to automate our trade finance service which will improve our delivery capability substantially.

It has been a year of major technological advances and significant streamlining of operational procedures. In the year to come, we will focus on reducing costs and increasing efficiency still further.

Audit

The Audit Division has a clear mandate to promote and maintain a comprehensive control structure at every level within the Bank. During 1997, we have played an increasingly proactive role in developing operating procedures which match the highest international standards.

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Customer deposits & liabilities SRbn

69

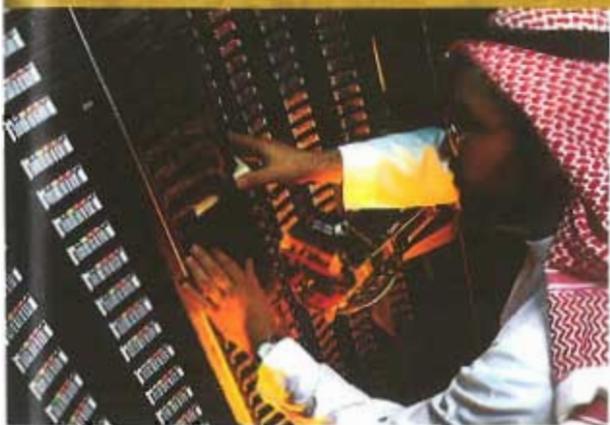
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NCB's dedicated computer centre is the backbone of the Bank's increased capacity to meet customers' needs.

New developments include specialist file interrogation software which has been deployed to confirm the continuing accuracy and integrity of our core banking systems, particularly during the change in operating platforms.

Following the development, last year, of guidelines to prevent money laundering, we have created a computer based training programme, which will be available in Arabic and English on screen at branch level. In due course, this material will be made available to other Arab banking institutions.

As befits the largest bank in the Kingdom, we have led the way in introducing fraud prevention software to measure the quality of new business and minimise the Bank's exposure to risk. Indeed, NCB is the only bank in the Kingdom to operate a dedicated fraud unit which is centrally managed from our headquarters in Jeddah. As a result of our experience and tight operating procedures, we achieve an exceptionally high recovery rate.

Over the course of the year, we have acted as a pilot site for the Bank's Intranet project which, when fully operational, will become a primary delivery channel for the training material we have developed.

Within the Audit Division, we take a holistic approach to training and career development. This combines technical and professional coaching with team-building courses, given by experienced managers, to drive the Bank's Saudisation programme forward.

In response to the Saudi Arabian Monetary Agency's investment rules initiative, the division has published an initial draft of

a fiduciary standards manual which covers investment activities across the Bank.

International Division

The division consists of a close-knit team, based at Head Office, with branches in Bahrain and Beirut and representative offices in London, Frankfurt, Singapore, Seoul and Tokyo. Each office has responsibility for a clearly defined geographical area, and the International Division is a fully-fledged contributor to the Bank's profitability in its own right.

The division services two customer groups. The first consists of overseas institutions with whom documentary credits, treasury and payments are transacted. Currently, NCB enjoys close correspondent banking relationships with some 600 financial institutions spread over 70 countries. During 1997, we have enhanced our systems and procedures to enable us to serve our correspondents better, while contributing to improved profitability.

The second group comprises customers of our domestic branch network, with whom we work closely to meet their international requirements, delivering a high level of service. These requirements cover trade finance, payments and other financial services which are closely coordinated with our correspondents.

The continued strong performance of the Saudi economy has increased the volume of trade and payment flows. NCB has continued to take the lead in these sectors as a result of the prominent position we occupy.

The Bank's enhanced computer systems have streamlined transaction processing and increased our risk management capability.



To support the growth and diversification of Islamic finance, we have identified suitable counterparties and products to help grow this segment of the market.

Our overseas branches and representative offices have played an important role in supporting both our international strategy and global position, the better to serve our internal and external clients.

Finance & Accounting

The division's primary responsibilities are to deliver accurate and timely information and to maintain strong financial controls. It is structured into four main departments: accounting (accounting functions and payments); internal control (transactional review, proofs and verifications); financial management information systems and budgeting; and accounting systems (accounting policies, procedures and system testing).

The year's most far reaching achievement has been the implementation, last July, of the Unified (divisional) General Ledger.

The division also played a proactive and value added role in the project for the migration to and implementation of a new front-end banking system. The division's extensive involvement included definition of accounting and financial functionality, ensuring the accurate conversion of data to the new system, and user training on the new system.

As we continue to work towards a zero error environment, huge advances have been made in terms of management information and internal controls, leading to a significant increase in efficiency across the Bank. In terms of personnel, we have ended the year in a much stronger position, with a 9% increase in the division's level of Saudisation.

General Support Services

In a climate of far reaching change taking place within the Bank in terms of structure, technology and operating procedures, General Support Services continues to deliver world class administrative and legal support to the operating divisions.

The introduction of General Support Services' ORACLE-based system permits large volumes of data to be transmitted via

NCB's Intranet and marks an important step towards the goal of a near paperless office environment.

Training and career development continue to occupy a central role in our drive to recruit, encourage and retain quality staff at all levels. In pursuit of this, career enhancing programmes are regularly conducted in-house, within the Kingdom and overseas, to maintain the skills and knowledge base commensurate with the Bank's leading position in the region's financial community.

NCB's Saudisation Project was launched at the end of 1995. Since then, more than 500 graduates have been recruited. By the end of 1997, the ratio of Saudis to total employees had reached 64% bank-wide.

Managing human resources is a complex and challenging task. Whilst maintaining firm control over costs and payroll, we retain an unwavering commitment to realising the full potential of our people in the broadest sense. In April 1997, the NCB Club was established at Green Island on Jeddah's Corniche for the exclusive use of employees and their guests. The facilities include a restaurant, a health club and a range of sporting activities designed to promote competitiveness and informal relationships within the Bank.

Under the auspices of SAMA, the Kingdom's financial system continues to evolve at a rapid pace, requiring a comprehensive regulatory framework. NCB's Legal Services department plays an important part in this and works closely with the Bank's customer-driven divisions to develop the quality of documentation which serves their needs and those of their customers. This two-way process is an essential ingredient in creating the best products and levels of service.

Communications and Social Responsibility

NCB believes that open communications and healthy dialogue are fundamental to the way in which we do business. It is vital to keep in touch with a wide cross-section of people which include customers, employees, correspondent banks, business partners, regulators and the media. In this way, we are able to improve mutual understanding and create a receptive environment in which the Bank can operate efficiently and profitably.

Effective cash management
includes the **centralisation** of such
functions as the **replenishing** of ATMs.

